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SUBJECT: TURKMEN COUNTERPARTS READY TO BROADEN ECONOMIC REFORM  
COOPERATION

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¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (U) SUMMARY: During meetings on December 9-10, 2009 between USAID's Economic Reform to Enhance Competitiveness (EREC) Chief of Party and officials from the Institute for Strategic Planning and Economic Development (ISPED) and the Ministry of Economy and Development (MOED), USAID was asked to expand its cooperation in support of Turkmenistan's ongoing economic reforms. Recent EREC activities supported the drafting of the Private Sector Development Concept Paper, and trainings on econometrics and macroeconomic forecasting. The growing relationship indicates increasing confidence in the USG's ability to deliver quality assistance in response to the country's priorities. The ISPED director's desire to move from training to application reflects the still-limited capacity of fledgling government institutions and highlights the importance of continued engagement. END SUMMARY.

ECONOMIC RESEARCH INSTITUTION GRATEFUL FOR USAID ASSISTANCE

¶3. (U) The December 9, 2009, meeting with the Institute for Strategic Planning and Economic Development (ISPED) started with a summary of USAID/EREC's joint activities in 2009. The project's work included assistance with preparing the Private Sector Development Concept Paper, trainings on econometrics, macroeconomic forecasting, and English language.

¶4. (U) The ISPED director expressed his gratitude for USAID/EREC's continued support, and acknowledged the project's close cooperation with ISPED, Ministry of Economy and Development (MOED), and Union of Entrepreneurs and Industrialists in identifying and developing six directions in the Private Sector Development (PSD) program. After reviewing the project's inputs, ISPED and the Ministry of Economy and Development (MOED) added two more directions before submitting the final version to the Cabinet of Ministers for consideration. He also acknowledged that the August 2009 law for state support of private business contained some of the recommendations outlined in the PSD program paper.

¶5. (U) He then described ISPED's role in the government structure, noting that it is subordinate to the Cabinet of Ministers and works under short term (i.e., 3-6 month) plans as well as longer term objectives to promote economic growth of Turkmenistan. He said it was the only institute in the country that deals with monitoring,

forecasting, economic modeling, research and analysis of Turkmenistan's economy.

COOPERATION ON APPLICATION OF KNOWLEDGE WELCOMED

¶6. (SBU) Looking to the first quarter of 2010, the director identified several areas where USAID/EREC's assistance would be particularly welcome. Specifically, he mentioned creation of business incubators, techno-parks, and other innovations that might be helpful to promote growth of the private sector. He said that a new private sector support law will be implemented by a state commission led by the Cabinet of Ministers, and that they would likely welcome assistance in that area as well. Although ISPED staff already received training on econometrics, the next step should be actual application of the new knowledge by jointly analyzing a specific branch of industry.

¶7. (U) With regard to ISPED's broader mandate, the director suggested that USAID projects should focus not only on small and medium enterprise (SME) development. No developed economies rely on small scale production, and Turkmenistan also intends to increase the efficiency of its large industries. Turkmenistan's objective is to create a mixed economy composed of both SMEs and large corporations. Where natural monopoly exists, the government will retain this monopoly, but other industries can be developed. Economic growth can be achieved through processing in the country. For example, natural gas can be liquefied and oil can be processed into valued-added end products. Likewise, to support the construction industry, more cement is now produced locally in place of imports, and the same was possible for marble materials or chemical paints. In agriculture, there was good potential to promote exports of Turkmen melons to outside markets.

MINISTRY SEEKS BROADER COOPERATION IN ECONOMIC SECTOR

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¶8. (U) In a December 10, 2009, meeting with Deputy Minister of Economy and Development Akmurad Mamedov and the Foreign Economic Relations and Licensing Departments heads, the Deputy Minister first thanked USAID/EREC for assistance in 2009 on Private Sector Development (PSD) strategy, econometrics trainings, Private-Public Partnership (PPP) development, and selection and monitoring of public investment programs. Once the Cabinet of Ministers approves the PSD program, USAID/EREC's assistance will be needed to implement the strategy. Continuing, he described the current process of improving private sector climate, in terms of liberalized legislation, tax breaks, low interest credits, simplified custom procedures, access to foreign currency and improvements in currency conversion after unification of the exchange rate.

¶9. (U) The Deputy Minister welcomed further assistance in terms of learning about the experience of other countries in supporting private sector growth, especially Kazakhstan. He suggested opportunities to learn about the experience of other countries in PPP selection, monitoring, evaluation and implementation. This assistance was needed due to Turkmenistan's desire to move ahead with greater government contracts with local private sector firms, like in construction sphere.

¶10. (U) The Licensing Department Head stated that support for Turkmenistan's SME sector has gone beyond its initial stage. There were already a large number of SMEs, a sign that the private was ready for the next stage of development. As a result, the ministry now faced the transition situation that other countries had already passed through. Offers by USAID/EREC to conduct study tours geared toward objectives of the PSD paper were timely and most needed. The ministry needed to see business incubators and free economic zones in other countries, and how they have been implemented in other countries. Training on evaluation of public investment programs was also in demand. Future capacity building activities should focus on market-oriented tools for assessing real estate, brand names, and business evaluation, among others.

¶11. (SBU) COMMENT: Apart from their non-credible assertions that Turkmenistan's SME sector had progressed beyond initial stages, the

GOTX interlocutors appeared to deliver a coordinated message on the future role of SMEs in Turkmenistan. They were also consistent in welcoming expanded USG support to achieve their objectives. As part of the government's increasing openness to learn from other countries' experience in economic transition, Kazakhstan continues to appear as an attractive example for Turkmenistan. The ISPED director's desire to move from training to application reflects the still-limited capacity of fledgling institutions like ISPED and highlights the importance of continued USG engagement. USAID's regional economic program is well-positioned to address these needs until its projected conclusion in February 2011.

¶12. (SBU) COMMENT CONTINUED: USAID/EREC has already submitted draft action plans based on these discussions for review by ISPED and MOED. As noted above, the current USAID/EREC project runs through February 2011, and existing funding will allow the project to respond to planned activities. As options for future programming are considered, it is expected that increased funding will be necessary to fully capitalize on these opportunities, each of which support the stated USG priority of promoting introduction of basic market reforms to move Turkmenistan toward greater integration with the region. END COMMENT.

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